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A Guide to Withholding of Taxes on Wages

University of Massachusetts
Depository Copy 2002



Definitions and Employer Responsibilities



Calculating Withholding



Filing and Payment Information



Reporting Wages and Withholding



Department of Revenue Resources



Massachusetts Department of Revenue



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From the Commissioner

Dear Taxpayer:

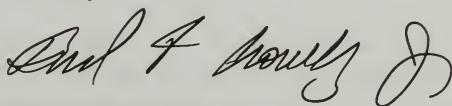
The withholding of state income taxes by employers from their employees' paychecks is the single most important revenue source for the Commonwealth. At the Department of Revenue (DOR), our goal is to help all employers meet their withholding requirements by explaining the rules for collecting and remitting employee withholding in the clearest way possible.

Withholding is one of several "trustee taxes" administered by the Department. Trustee taxes — withholding as well as sales/use tax, meals tax and room occupancy excise — are so-named because employees and customers are entrusting businesses to remit the taxes they collect to the Commonwealth. The fact that trustee taxes account for well over half of total state tax collections each year underscores the importance of remitting these taxes to DOR on time and in full.

To ensure that Massachusetts taxpayers understand and fulfill their responsibilities, the Department is committed to providing taxpayers with reliable customer service, easy-to-use tax forms and informational tax guides like this one. At the same time, our ongoing enforcement efforts are designed to assure honest taxpayers that we will pursue those who try to avoid their obligations.

Whether you are starting a new business or are a veteran business owner, we hope this guide is helpful in providing you with an understanding of your withholding responsibilities. As always, you are invited to contact the Department directly if you have additional questions.

Sincerely,

A handwritten signature in dark ink, appearing to read "Bernard F. Crowley, Jr.", with a stylized flourish at the end.

*Bernard F. Crowley, Jr.
Acting Commissioner of Revenue*

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Introduction

This publication contains general information regarding withholding of Massachusetts income tax from wages. It is designed to inform you, as an employer, of the basics of collecting and remitting employee withholding to the Massachusetts Department of Revenue (DOR).

Written in a straightforward question and answer format, this guide defines basic withholding terminology, outlines an employer's responsibilities and explains the methods of calculating the proper amount of withholding.

Please note that Massachusetts uses federal legal definitions for many basic withholding concepts such as "employer" and "employee." The descriptions of basic terms provided here are not comprehensive. Any complex definitional questions must be resolved in accordance with federal rules.

This guide is part of an ongoing series of publications designed to keep the public informed about Massachusetts tax law. If you have further questions about the withholding of income tax, please call the Department's Customer Service Bureau at (617) 887-MDOR or toll-free in Massachusetts at 1-800-392-6089.

*The Department is pleased to offer Massachusetts employers access to a number of useful resources via its website at **www.mass.gov/dor**. The website contains information on various tax and employer obligations, as well as electronic filing and payment options. One such feature, the Online Employer Reporting System, allows employers to report their new hires to the Department via the Internet. In addition, WebFile for Employers, a new program developed in conjunction with the Division of Employment and Training, allows employers to file and pay all of their Massachusetts payroll taxes electronically. By using WebFile for Employers, businesses will be able to file their combined quarterly returns for unemployment insurance/workforce training contributions, unemployment health insurance and withholding taxes, as well as pay these obligations online. The program also allows employers to file wage reports; make weekly or monthly withholding deposits; and view their transaction history.*

Basic Definitions and Employer Responsibilities

What is withholding?

Withholding refers to income tax withheld from wages by employers to pay employees' personal income taxes. As an employer, you are required by law to withhold Massachusetts personal income tax from the wages of residents for services performed either within or outside Massachusetts, and from the wages of nonresidents for services performed in Massachusetts.

Who is an employer?

An employer is any person, corporation or organization for whom an individual performs a service as an employee. An employer may be an individual, corporation, partnership, estate, trust, association, joint venture or other unincorporated organization. Religious, educational, charitable and social organizations also may be employers. Employers are responsible for collecting and remitting employee withholding to the Commonwealth.

Who is an employee?

An employee is anyone who performs services for another person or organization under the direction and control of that person or organization. The relationship of employer and employee exists when the person for whom services are performed has the right to control and direct the details and manner in which the job is to be accomplished.

Is the owner of a business considered an employee?

As a general rule, the owner of a sole proprietorship is not considered an employee for withholding purposes even if he or she has no other employees. Therefore, the owner would not register for withholding solely to pay his or her own taxes.

However, if an owner expects to owe more than \$200 in Massachusetts income tax on the income received from the business, he or she is required to make individual estimated income tax payments.

*For more information on individual estimated income tax payments, refer to DOR's Estimated Income Tax Payment Voucher (Form 1-ES) Instructions. DOR also has a guide entitled, **Should You Be Paying Estimated Taxes?** Both are available by calling DOR's main information lines at (617) 887-MDOR or toll-free in Massachusetts at 1-800-392-6089.*

What are the responsibilities of an employer?

An employer is responsible for:

- *Registering with DOR to collect withholding taxes;*
- *Withholding state income taxes from employees who reside or are employed in Massachusetts and remitting those taxes, along with the appropriate form, on time. (Please refer to the section entitled, "How to Calculate Withholding from Wages" on page 13.);*
- *Obtaining from each employee a completed Employee's Withholding Allowance Certificate (Form W-4) and Massachusetts Employee's Withholding Exemption Certificate (Form M-4);*
- *Reporting to DOR, within 14 days of hire or reinstatement, all newly hired employees, employees returning to work after 30 days or more off the payroll, and independent contractors who will be earning \$600 or more. Reports may be made via DOR's Online Employer Reporting System, available on the DOR website at www.mass.gov/dor. Employers may submit paper reports on New Hire and Independent Contractor Reporting Form (Form NHR). Send completed forms to DOR by fax at (617) 887-5049, or mail to Department of Revenue, PO Box 7032, Boston, MA 02204. Form NHR is available on DOR's website, or by calling Fax on Demand at (617) 887-1900 and entering code number 506.*

This information is matched to DOR's database of individuals required to pay child support. When a newly hired employee or independent contractor has a child support obligation, DOR notifies the employer to withhold child support and remit the funds to DOR for distribution to families entitled to support. Employers must remit these funds within three business days of the payroll date. The information also is used to combat fraud in programs run by various state and federal agencies.

- *Filing quarterly reports of wages paid to each employee who resides or is employed in Massachusetts. This filing is done on Employer's Quarterly Report of Wages Paid (Form WR-1), or the information may be recorded on magnetic tape, diskette or cartridge and mailed to Department of Revenue, Tape Library, PO Box 7030, Boston, MA 02204. (Please see pages 20 through 22 for more information on wage reporting requirements.);*



DOR Tape Library
PO Box 7030
Boston, MA 02204



Division of Employment
and Training
(617) 626-5075

Internal Revenue Service
1-800-829-1040

- *Providing each employee with a Wage and Tax Statement (Form W-2) by January 31, or within 30 days if employment terminates before the close of the calendar year, showing the total amount of wages paid, the total Social Security and Medicare taxes withheld, and the amount of federal and Massachusetts income tax withheld for the prior year;*
- *Contacting the Massachusetts Division of Employment and Training to fulfill the obligations for state employment security taxes. The telephone number for unemployment insurance information is (617) 626-5075; and*
- *Contacting the Internal Revenue Service (IRS) to fulfill obligations for withholding federal income taxes as well as Social Security and Medicare taxes. For more information, call the IRS toll-free at 1-800-829-1040.*

Information on state unemployment insurance and federal withholding obligations also is available on the DOR website at www.mass.gov/dor.

Eligible employers can file wage reports, as well as file and pay withholding taxes and unemployment insurance online via DOR's WebFile for Employers program. Visit the DOR website at www.mass.gov/dor for more information.

How does an employer register to collect withholding?

To register to collect Massachusetts withholding, an employer must file a Massachusetts Trustee Tax Application for Original Registration (Form TA-1).

The TA-1 booklet contains filing schedules, instructions for completing the form and other important information. The booklet is available at any DOR office location listed on the back of this guide.

An employer may file the electronic equivalent of a Form TA-1 via the Department's Online Application for Registration, which is available on the DOR website at www.mass.gov/dor.

What happens after registering with DOR?

Once DOR has processed your Form TA-1 or Online Application for Registration, we will send a booklet of preprinted tax forms to your prin-

cipal place of business. If your business size requires you to file annually, you will not receive your form until December of the year for which you are filing.

Must a tax-exempt organization collect withholding?

Yes. Tax-exempt organizations such as religious and government organizations are required to withhold income tax from employees.

Is a Massachusetts employer required to withhold state income tax from an employee who is a nonresident?

Yes. Withholding is required on wages paid to nonresidents that are attributable to services performed in Massachusetts. However, if a nonresident does not work in Massachusetts, even if he or she is paid from a Massachusetts office, withholding is not required.

Example: Michael is single, lives in Nashua, New Hampshire and works in Massachusetts. His Massachusetts employer withholds the appropriate amount of Massachusetts income tax from his paycheck and remits it in full to DOR. Michael files a nonresident income tax return in Massachusetts.

Is a non-Massachusetts employer required to withhold state income tax from wages for a Massachusetts resident?

If the non-Massachusetts employer conducts business or maintains an office in Massachusetts, the employer must deduct and withhold from wages the amount determined for Massachusetts income tax purposes, less any amount deducted and withheld for the employer's state. If there is no state withholding in the home state of the business, the employer withholds and remits the full amount determined for Massachusetts.

A non-Massachusetts employer is not required to withhold if its only Massachusetts connection is the employment of a Massachusetts resident. The employer may withhold for the convenience of the employee if both employer and employee agree. The employee will owe Massachusetts income tax if the employer does not withhold state income taxes.

Example: Susan is single, lives in Springfield, Massachusetts, and works in Connecticut, where she earns \$450 a week. The employer, which also has offices in Massachusetts, withholds \$5.80 from her paycheck each

week for Connecticut income taxes. Since Susan would have had \$17.79 withheld from her weekly paycheck had she worked in Massachusetts, her employer withholds and remits an additional \$11.99 to DOR.

Must an employer withhold on wages for Massachusetts if federal withholding is not required?

No. Generally, DOR follows the IRS guidelines for persons subject to withholding. If there is no requirement to withhold federal income tax because of the type of income, there is no requirement to withhold Massachusetts income tax.

In particular, withholding by household (domestic) employers is not required. However, domestic employers still are required to withhold Social Security tax from household employees. For more information about these requirements, contact the Internal Revenue Service toll-free at 1-800-829-1040. Household employers also should contact the Division of Employment and Training at (617) 626-5075 for information on their obligations for state unemployment taxes.



*Internal Revenue Service
1-800-829-1040*

*As a convenience to their employees, domestic employers do have the option to withhold federal and state income tax. Withholding income tax from wages may relieve domestic employees from having to pay estimated taxes. The Department has developed the **Household Employment Tax Guide** to provide household employers with the information they need to fully understand their obligations when hiring household help. Copies of the guide are available on the DOR website at www.mass.gov/dor, or by calling DOR's main information lines at (617) 887-MDOR or toll-free in Massachusetts at 1-800-392-6089.*

Are pension, annuity and other similar payments subject to withholding?

Yes. Payments of pension, annuity and other similar payments made to Massachusetts residents who have not elected to be exempt from U.S. income tax withholding are subject to Massachusetts income tax withholding.

Are lump sum and eligible rollovers from qualified pension and annuity plans subject to withholding?



DOR's Fax on Demand
(617) 887-1900

Generally, lump sum and eligible rollovers that are subject to federal withholding also are subject to Massachusetts withholding, unless such distributions are of a type that would never be subject to Massachusetts personal income taxation. For more information, please see TIR 98-8, Massachusetts 1998 Reducing Income Taxes Act ("the Act") or TIR 93-3, Massachusetts Income Tax Withholding on Eligible Rollover Distributions from I.R.C. s.401 Qualified Plans and s.403(b) Annuities. Both TIRs are available by calling either DOR's Rulings and Regulations Bureau at (617) 626-3250 or DOR's Fax on Demand system at (617) 887-1900.

How are such pension and annuity withholdings reported and paid?

The trustee or administrator of the pension or annuity plan must register with DOR by filing a Massachusetts Trustee Tax Application for Original Registration (Form TA-1), using the plan's federal tax identification number and checking box 1A2. Generally, a plan is required to obtain its own Federal Identification Number. Recipients of payments are required to file a Massachusetts Withholding Exemption Certificate for Pension, Annuity and Other Periodic and Nonperiodic Payments (Form M-4P) with the trustee or administrator of the plan. Returns are due annually, and payments are subject to the same schedule as withholding on wages with regard to frequency. Please see page 17 for payment requirements.

Do special rules apply to employees of interstate motor and rail carriers?

Yes. Interstate rail and motor carrier employers are required to withhold Massachusetts income tax from their workers who are Massachusetts residents, and from their workers who are not residents of Massachusetts but who perform all their regularly assigned duties in Massachusetts. For more information, please see Technical Information Release, 93-6, Income Tax: Employees of Interstate Motor and Rail Carriers, which is available on the DOR website at www.mass.gov/dor, or by calling either DOR's Rulings and Regulations Bureau at (617) 626-3250 or DOR's Fax on Demand system at (617) 887-1900, using the handset and the keypad of your fax machine, and entering code number 1816.



See Technical Information
Release 93-6

Information Employers Must Obtain from Employees

What information does an employer need to obtain from an employee for withholding purposes?

An employer needs to obtain the employee's full name, home address, Social Security number, the total number of exemptions, and any additional withholding amounts the employee requests to have withheld. Employees must report this information on an Employee's Withholding Allowance Certificate and on a Massachusetts Employee's Withholding Exemption Certificate (Forms W-4 and M-4). Claiming the proper number of exemptions prevents over- and under-withholding.



Report exemptions on
Form M-4

Should employees complete both Forms W-4 and M-4?

Yes. Since Massachusetts withholding exemptions are different from U.S. withholding exemptions, employees should complete both Forms M-4 and W-4 for the most accurate withholding.

Can an employee change the number of his or her exemptions on Form M-4?

Yes. An employee may file a new certificate at any time if the number of exemptions increases. An employee must file a new certificate within 10 days if the number of exemptions previously claimed decreases.

How does an employee with two or more jobs calculate exemptions on Form M-4?

If an employee holds more than one job, he or she may claim exemptions only with his or her principal employer.

Can employees ask employers to withhold extra amounts of tax?

Yes. Employees who receive income that is not covered by withholding may request that their employer withhold additional amounts to pay the tax that will be due on that income.

Should an employer withhold on income from tips?

Yes. In accordance with federal tax rules, tips are considered to be part of an employee's pay and must be taken into account when determining the withholding amount. Employees must report tips from any one job totalling \$20 or more in any given month to employers by the 10th day of the following month. The employer uses this reported amount to calculate withholding by adding the reported tips to the employee's pay.

How to Calculate Withholding from Wages

What are taxable wages?

Taxable wages include all compensation to an employee for services performed. Payments subject to Massachusetts withholding include wages, salaries, tips, commissions, bonuses, fees or any other item of value paid to an individual for services performed as an employee.

Are payments to employees for traveling or other reimbursable business expenses subject to withholding?

If such expenses are substantiated by the employee, and the amount in excess of the substantiated expenses is returned to the employer, then these payments are not subject to withholding. Such payments must be identified either by making a separate payment or by indicating the separate amounts if both wages and expense allowances are combined in a single payment. If the employee is not required to substantiate expenses or return excess payments, the payments must be included in the employee's wages, and are subject to withholding.

How is withholding calculated?

The amount of income tax withheld is based on the employee's taxable wages, the number of exemptions claimed, and any additional withholding amounts requested on the Massachusetts Employee's Withholding Exemption Certificate (Form M-4). Withholding is calculated either by using the tax tables available from DOR or by using a mathematical formula commonly known as the percentage method. These methods, which are explained in Massachusetts Income Tax Withholding Tables January 1 through December 31, 2002 (Circular M), may be applied on a daily, weekly, biweekly, semimonthly or monthly basis.




*Use tax tables or
percentage method to
calculate withholding*

How do the withholding tables work?

The withholding tables provided in DOR's Circular M factor in the employee's wages for an applicable payroll period, the number of withholding exemptions claimed by the employee, and any additional withholding amounts requested by the employee on Form M-4 to determine the correct amount to withhold.

Example: Steve earns \$565 a week as a construction worker. His wife Debby works full-time in real estate. They have three children, ages 14, 11 and 8. Steve and Debby decided to claim the exemptions for their children on Steve's M-4. Following is a copy of Steve's Form M-4. He is allowed a total of five exemptions: one for himself, three for his children, plus an additional exemption for having at least one child under age 12.

FORM M-4		MASSACHUSETTS EMPLOYEE'S WITHHOLDING EXEMPTION CERTIFICATE		Rev. 7/98
Print full name <u>STEVEN TAXPAYER</u>		Social Security No. <u>123-45-6789</u>		
Print home address <u>66 MAIN STREET</u>		City <u>ANYTOWN</u> State <u>MA</u> Zip Code <u>02134</u>		
EMPLOYEE: <small>File this form or Form W-4 with your employer. Otherwise, Massachusetts Income Taxes will be withheld from your wages without exemptions.</small> EMPLOYER: <small>Keep this certificate with your records. If the employee is believed to have claimed excessive exemptions, the Massachusetts Department of Revenue should be so advised.</small>	HOW TO CLAIM YOUR WITHHOLDING EXEMPTIONS 1. Your personal exemption. Write the figure "1". If you are age 65 or over or will be before next year, write "2". 1 2. IF MARRIED and if exemption for spouse is allowed, write the figure "4". If your spouse is age 65 or over or will be before next year and if otherwise qualified, write "5". See Instruction C. 0 3. Write the number of your qualified dependents. See Instruction D. 4 4. Add the number of exemptions which you have claimed above and write the total 5 5. Additional withholding per pay period under agreement with employer \$ <u>0</u> A. <input type="checkbox"/> Check if you will file as head of household on your tax return. B. <input type="checkbox"/> Check if you are blind. C. <input type="checkbox"/> Check if spouse is blind and not subject to withholding. D. <input type="checkbox"/> Check if you are a full-time student engaged in seasonal, part-time or temporary employment whose estimated annual income will not exceed \$8,000. EMPLOYER: DO NOT withhold if Box D is checked.			
I certify that the number of withholding exemptions claimed on this certificate does not exceed the number to which I am entitled. (Date) <u>APRIL 5, 2002</u> (Signed) <u>Steve Taxpayer</u> <div style="text-align: center;">THIS FORM MAY BE REPRODUCED</div>				

Steve's employer uses this information to calculate the correct amount to withhold from his weekly paycheck. Using the weekly table in Circular M, his employer withholds \$19.35 from Steve's weekly paycheck.

If the payroll period with respect to an employee is WEEKLY												
And the wages are:		And the number of withholding exemptions claimed is:										
		0	1	2	3	4	5	6	7	8	9	10
At least	But less than	The amount of Massachusetts income tax to be withheld shall be:										
510	520	25.26	20.77	19.75	18.73	17.71	16.70	15.68	14.66	13.64	12.62	11.60
520	530	25.79	21.30	20.28	19.26	18.24	17.23	16.21	15.19	14.17	13.15	12.13
530	540	26.32	21.83	20.81	19.79	18.77	17.76	16.74	15.72	14.70	13.68	12.66
540	550	26.85	22.36	21.34	20.32	19.30	18.29	17.27	16.25	15.23	14.21	13.19
550	560	27.38	22.89	21.87	20.85	19.83	18.82	17.80	16.78	15.76	14.74	13.72
560	570	27.91	23.42	22.40	21.38	20.36	19.35	18.33	17.31	16.29	15.27	14.25
570	580	28.44	23.95	22.93	21.91	20.89	19.88	18.86	17.84	16.82	15.80	14.78
580	590	28.97	24.48	23.46	22.44	21.42	20.41	19.39	18.37	17.35	16.33	15.31
590	600	29.50	25.01	23.99	22.97	21.95	20.94	19.92	18.90	17.88	16.86	15.84
600	610	30.03	25.54	24.52	23.50	22.48	21.47	20.45	19.43	18.41	17.39	16.37

An additional reduction of the withholding amount occurs if the taxpayer is filing as head of household and/or either the taxpayer or the taxpayer's spouse is blind. The withholding table amount should be reduced as follows if the taxpayer is filing as head of household and/or the blindness exemption is claimed:

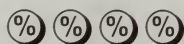
Payroll Period	Reduction Amount	
	Head of Household	Blindness Exemption*
Daily	\$0.34	\$0.31
Weekly	2.44	2.24
Biweekly	4.89	4.48
Semimonthly	5.30	4.85
Monthly	10.60	9.71

* These amounts should be doubled if both the taxpayer is blind and the taxpayer's spouse is blind and not otherwise subject to withholding.

What is the percentage method?

The percentage method is a mathematical formula for determining withholding amounts. This method is used primarily by businesses with automated payroll systems. The percentage method is calculated as follows:

1. Determine employee's wages for the payroll period (weekly, biweekly, etc.).
2. Subtract the amount deducted for Social Security (FICA), Medicare, Massachusetts, U.S. or Railroad Retirement contributions (up to an annual maximum of \$2,000).
3. Subtract the exemption amount (from the following table). If no exemptions are claimed, the exemption amount will be \$0.
4. Multiply the result by the current rate.



Currently the tax rate
is 5.3 percent

☛ For tax year 2002, the tax rate is 5.3 percent.

The exemption amount is based on the number of withholding exemptions claimed and the applicable payroll periods. The following table details the exemption amount calculation:

Payroll Period Exemption Amount Calculation

Daily	\$ 3.00 x number of exemptions claimed + \$ 9
Weekly	\$ 19.50 x number of exemptions claimed + \$ 65
Biweekly	\$ 39.00 x number of exemptions claimed + \$ 130
Semimonthly	\$ 42.00 x number of exemptions claimed + \$ 141
Monthly	\$ 83.00 x number of exemptions claimed + \$ 284
Annually	\$1,000.00 x number of exemptions claimed + \$3,400

Example: Nancy works as a paralegal and earns \$350 a week. She claims four exemptions: one for herself, two for her children ages 3 and 6, and one more for having at least one dependent under age 12. Nancy's state withholding, using the percentage method, is based on the following calculation:

Wages	\$350.00
Social Security (FICA) and Medicare	(26.78)
Subtotal	\$323.22
Exemption factor (19.50 x 4) + 65.00	(143.00)
Subtotal	\$180.22
Tax rate	x .053
Withholding	\$ 9.55

An additional reduction of the withholding amount occurs if the taxpayer is filing as head of household and/or either the taxpayer or the taxpayer's spouse is blind. When using the percentage method to calculate withholding, reduce the amount withheld according to the following table if the taxpayer is filing as head of household and/or the blindness exemption is claimed:

Payroll Period	Reduction Amount	
	Head of Household	Blindness Exemption*
Daily	\$0.34	\$0.31
Weekly	2.44	2.24
Biweekly	4.89	4.48
Semimonthly	5.30	4.85
Monthly	10.60	9.71

*These amounts should be doubled if both the taxpayer is blind and the taxpayer's spouse is blind and not otherwise subject to withholding.

Filing and Payment Information

What are the requirements for filing and paying withholding?

Due dates for filing forms and paying over withholding vary depending on the total amount of tax you expect to withhold from your employees in a year. In all cases, the mailing date must be at least two days before the due date. The following chart lists the filing and payment requirements.

Projected Annual Withholding Tax Collected from All Employees	Return Filing Requirement	Payment Due
\$100 or less	Annually due by January 31 of the following year. Form M-941A.	Payment due with return.
\$101 up to \$1,200	Quarterly due on or before last day of month following close of calendar quarter, i.e., on or before April 30, July 31, October 31, and January 31. Form M-941.	Payment due with return.
\$1,201 up to \$25,000	Monthly due on or before 15th day of following month except for the payments for March, June, September and December — these are due on the last day of the following month. Form M-942.	Payment due with return. (Return and payment due dates differ if using WebFile for Employers. See the DOR website for more information.)
More than \$25,000*	Quarterly due on or before last day of month following close of the calendar quarter, i.e., on or before April 30, July 31, October 31 and January 31. Form M-941D.	When Massachusetts income tax withheld is \$500 or more by the 7th, 15th, 22nd and last day of a month, pay over within three business days thereafter with a completed Form M-941W for each payment.

*Withholding taxpayers with annual tax liabilities of \$250,000 or more are required to make weekly depository payments through the Department's Electronic Funds Transfer (EFT) program. For more information contact the Department's EFT unit at (617) 887-5020.

Example: Over the year, AMC Productions expects to withhold a total of \$14,000 from its 12 employees for Massachusetts income tax. Because AMC Productions withholds more than \$1,201 but less than \$25,000 annually, it is required to file an Employer's Monthly Return of Income Taxes Withheld (Form M-942).

Withholding taxpayers may be eligible to file their returns and make tax payments electronically. Contact the Department's EFT unit at (617) 887-5020, or visit DOR's website at www.mass.gov/dor for more information about how to register to use the programs, payment options and eligibility requirements.

What are the interest and penalty charges for late returns and payments?

Withholding tax returns that are not filed on or before the due date are subject to interest and penalty charges.

*If you fail to pay the tax when due, interest will be charged at the federal short-term rate (which can change quarterly) plus four percentage points, compounded daily. If you wish to obtain information on these rates, please call DOR's Customer Service Bureau at (617) 887-MDOR or toll-free in Massachusetts at 1-800-392-6089. Rates also are published each quarter in the **Taxpayer Advisory Bulletin**. The previous 18 percent simple interest rate applies to interest accruing before January 1, 1993, even if the underlying liability is assessed after that date.*

The penalty for late payment is $\frac{1}{2}$ of one percent of the unpaid tax shown on the return per month (or fraction thereof), up to a maximum of 25 percent.



*Customer Service Bureau
(617) 887-MDOR or
1-800-392-6089*

The penalty for failure to file a return by the due date is one percent of the balance due per month (or fraction thereof), up to a maximum of 25 percent.

Are there any other penalties?

Yes. Businesses with annual withholding liabilities in excess of \$25,000 who fail to make timely deposits of withholding tax are liable for a 5 percent penalty on the amount of underpayment.

The amount of underpayment is any portion of a tax payment or weekly deposit that was due but not paid on time.

Willful tax evasion is a felony punishable by a fine of up to \$100,000 for individuals or \$500,000 for corporations and/or imprisonment of up to five years. Willful failure to collect and pay over taxes is also a felony and is punishable by a fine of up to \$10,000 and/or imprisonment of up to five years.

Must a form be filed even if no tax was due for a given period?

Yes. A form must be filed for all periods even when no tax is due — just enter zero in the appropriate places. This filing is necessary for DOR's record keeping purposes. It also will help avoid requests from DOR for filing information.

How can withholding payment errors be corrected?

If you make a withholding payment error, corrections must be made as follows:

- *Adjustments for an underpayment of withheld taxes for the immediate prior period within the same calendar year must be made in Item 2 of the employer's appropriate current period form — Quarterly Return of Income Taxes Withheld for Employer Paying Weekly, Employer's Monthly Return of Income Taxes Withheld or Employer's Quarterly Return of Income Taxes Withheld (Form M-941D, M-942 or M-941) — and submitted with payment for the additional amount.*
- *Underpayments occurring before the immediate prior calendar period must be adjusted on an Application for Abatement/Amended Return (Form CA-6) along with payment for the additional amount.*
- *Refunds of overpayments of taxes withheld must be requested by submitting an Application for Abatement/Amended Return (Form CA-6) along with a copy of the appropriate return substantiating the overpayment.*



*Requests for adjustments
or refunds must be
accompanied by
appropriate forms*

Reporting and Retaining Employee Wage and Withholding Information

Which withholding records should employers retain?

Records retained should include:

- The name, address, occupation and Social Security number of each employee;
- The amount and date of all payments of wages, the period of services covered by such payments and the amounts of tax withheld;
- Employees' statements of tips received;
- Employees' withholding exemption certificates (Forms W-4 and M-4);
- Employer's copies of employees' Wage and Tax Statements (Form W-2); and
- Copies of all withholding returns filed with the Department.

How long should withholding records be kept?

It is the employer's responsibility to retain all records pertaining to withholding for at least three years after the date the return was filed or the date it was required to be filed, whichever is later.

You also should know that there is no limitation on the period for which DOR may request records if an employer failed to file a return or filed a false or fraudulent return. For more information about retaining records, please see Regulation 830 CMR 62C.25.1, Records Retention, which is available on the DOR website at www.mass.gov/dor, or by calling either DOR's Rulings and Regulations Bureau at (617) 626-3250 or DOR's Fax on Demand system at (617) 887-1900, using the handset and the keypad on your fax machine, and entering code number 2604.



Rulings and Regulations
Bureau
(617) 626-3250

Is there a penalty for failure to provide W-2 forms to employees?

Yes. Employers are required to provide each employee with a Form W-2 by January 31. An employer who either fails to provide an employee with a Form W-2 or issues a false Form W-2 may be fined up to \$1,000 and/or imprisoned for up to one year.



Collections Bureau
(617) 887-6518

Are employers required to file W-2 information with DOR?

Employers who have 250 or more employees and who file Forms W-2 with the Internal Revenue Service (IRS) on magnetic media also must provide DOR with Forms W-2 on magnetic media. This information must be filed with the Department by the last day of February for the preceding year. Contact DOR's Collections Bureau at (617) 887-6518 for the most current format. Magnetic media files may be mailed to Department of Revenue, W-2 Magnetic Media Filing, PO Box 7084, Boston, MA 02204.

Employers with fewer than 250 employees are encouraged, but not required, to file Forms W-2 on magnetic media. For more information, please see DOR Directive 97-1, Employer Requirements for Filing 1996 Year-end Withholding Information, which is available on the DOR website at www.mass.gov/dor, or by calling either DOR's Rulings and Regulations Bureau at (617) 626-3250 or DOR's Fax on Demand system at (617) 887-1900, using the handset and keypad of your fax machine, and entering code number 3446.

Are employers required to file any other wage-related information with DOR?

Yes. By law, every employer who is required to deduct and withhold taxes on wages must complete and submit Massachusetts wage reporting information on an Employer's Quarterly Report of Wages Paid (Form WR-1). DOR will send registered employers the form on a quarterly basis. The purpose of the wage reporting system is to verify eligibility for programs such as Welfare, Medicaid, unemployment compensation and workers' compensation. In addition, it is used to help track down parents who fail to pay the child support they owe. Requirements under this system are separate from requirements to submit income tax withholding forms.

Employers also must report all newly hired employees, employees returning to the payroll, and independent contractors within two weeks of an employee's first day on the job. Visit the DOR website at www.mass.gov/dor for more information on reporting new hires to DOR.

An employer who fails to comply with the wage reporting requirements may be liable for penalties of up to \$100 per employee.

Can employers file wage reporting information on magnetic media?

Employers who report 250 or more employees in a calendar quarter are required to report quarterly wage information to the Department either on magnetic tape or cartridge. To make it as easy as possible for employers to meet this requirement, DOR has adopted a modified version of the format used by employers to report information to the Social Security Administration. Instructions for the Employer's Quarterly Report of Wages Paid (Form WR-1) explain magnetic media reporting rules in more detail. Small businesses may report quarterly wage reports on diskette. Any small business interested in participating in diskette filing should contact DOR's Wage Reporting Group at (617) 887-5030 for specifications and record layouts.

Eligible employers can file their quarterly wage reports online via DOR's Webfile for Employers program. Visit the DOR website at www.mass.gov/dor for more information.

Where can employers get more information about wage reporting?

For more information or to request a Form WR-1, employers may contact DOR's Wage Reporting Group at (617) 887-5030.

What is the schedule for filing wage reports?

*The wage report, Form WR-1, is due on or before the last day of the month following the end of **each** calendar quarter. Quarterly wage reports are due on the following dates:*

<i>Quarter Ending</i>	<i>Due Date</i>
<i>March 31</i>	<i>April 30</i>
<i>June 30</i>	<i>July 31</i>
<i>September 30</i>	<i>October 31</i>
<i>December 31</i>	<i>January 31</i>

Department of Revenue Resources

What kind of help is available?

The instructions in the Department of Revenue's tax forms should provide answers to most taxpayer questions. For further information on Massachusetts withholding tax law, please contact:



*If you have questions,
call or write for help*

Department of Revenue, Customer Service Bureau
PO Box 7010

Boston, MA 02204

(617) 887-MDOR or toll-free in Massachusetts 1-800-392-6089

DOR also issues a number of useful publications on various state tax issues. These publications include: tax-specific guides written in question and answer format such as **A Guide to the Department of Revenue: Your Taxpayer Bill of Rights**; a quarterly newsletter, the **Taxpayer Advisory Bulletin**, with updates on legislative, legal and Departmental decisions; and public written statements, such as Regulations, Technical Information Releases, Directives and Letter Rulings, that explain the Commonwealth's tax laws in detail. Taxpayers also can access TaxTalk, the Department's automated system of recorded tax help, during non-business hours at the main information lines listed above, or by visiting the DOR website. DOR also offers Small Business Workshops designed to help all new or small businesses understand their filing requirements. Please call (617) 887-6400 for more information.

Where to get forms and publications



To obtain Massachusetts forms and publications by phone, call the Department's main information lines at (617) 887-MDOR or toll-free in Massachusetts at 1-800-392-6089.



Many Massachusetts tax forms and publications also are available via the Department's website at www.mass.gov/dor.



Certain forms and publications can be obtained through DOR's Fax on Demand system. A list of commonly requested forms and publications and their fax codes appears on pages 24 through 26. For a complete Fax on Demand menu, please dial (617) 887-1900 using the handset and the keypad of your fax machine.

Commonly Requested Forms and Publications



DOR's Fax on Demand

(617) 887-1900

+ fax code number

DOR offers a number of publications on various state tax issues. Most are available by visiting the DOR website at www.mass.gov/dor, or by calling DOR's main information lines at (617) 887-MDOR or toll-free in Massachusetts at 1-800-392-6089. Many of the documents below also are available through DOR's Fax on Demand system. Please call (617) 887-1900 using the handset and the keypad of your fax machine for a complete menu, or use the code number following the document title below. Only forms followed by a fax code number may be obtained through Fax on Demand.

Form Number	Title/Fax Code Number
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1-ES	<i>Estimated Income Tax Payment Vouchers/306 Instructions for Completing Form 1-ES/809</i>
CA-6	<i>Application for Abatement/Amended Return/326</i>
Circular M	<i>Massachusetts Income Tax Withholding Tables January 1 Through December 31, 2002/334</i>
M-2848	<i>Power of Attorney and Declaration of Representative/348 Instructions for Completing Form M-2848/848</i>
M-4	<i>Massachusetts Employee's Withholding Exemption Certificate and Instructions/366</i>
M-4P	<i>Massachusetts Withholding Exemption Certificate for Pension, Annuity and Other Periodic Payments and Nonperiodic Payments and Instructions/367</i>
M-941	<i>Employer's Quarterly Return of Income Taxes Withheld and Instructions</i>
M-941A	<i>Employer's Annual Return of Income Taxes Withheld and Instructions</i>
M-941D	<i>Quarterly Return of Income Taxes Withheld for Employer Paying Weekly and Instructions</i>
M-941W	<i>Employer's Weekly Payment of Income Taxes Withheld and Instructions</i>
M-942	<i>Employer's Monthly Return of Income Taxes Withheld and Instructions</i>
TA-1	<i>Massachusetts Trustee Tax Application for Original Registration/314 Instructions for Completing Form TA-1/814</i>
TA-2	<i>Application for Additional Registration/315 Instructions for Completing Form TA-2/815</i>

Form Number	Title/Fax Code Number
TA-3 and TA-4	<i>Supporting Schedules for Forms TA-1 and/or TA-2/1383</i>
Trustee Taxes	<i>General Information/816</i>
WH-PEN	<i>Massachusetts Income Tax Withholding from Taxable Pensions, Annuity and Other Periodic Payments and from Nonperiodic Payments/373</i>
WHPM	<i>Massachusetts Income Tax Withholding System Percentage Methods for Wages Paid from January 1, 1996 Until Further Notice/374</i>
WR-1	<i>Employer's Quarterly Report of Wages Paid/317</i> <i>Instructions for Completing Form WR-1/817</i>
WR-1 Transmitter	
Report	<i>Wage Reporting Magnetic Media Transmitter Report/318</i>
Instructions for	
Magnetic Media	<i>Instructions for Filing on Magnetic Media/818</i>
WR-2	<i>Continuation Sheet for Employer's Quarterly Report of Wages Paid/319</i>
TaxTalk	<i>TaxTalk Menu of Topics/4000</i>



DOR's Fax on Demand

(617) 887-1900

+ fax code number

Publication Title/Fax Code Number

A Guide to the Department of Revenue: Your Taxpayer Bill of Rights/3005

Guide to Filing Your Massachusetts Income Taxes/3010

A Guide to Withholding of Taxes on Wages/3007

Should You Be Paying Estimated Taxes?/3008

A Guide to Sales and Use Tax/3009

A Guide to Sales Tax on Meals/3012

A Guide to Estate Taxes (Applicable to dates of death prior to January 1, 1997)/3011

A Guide to Estate Taxes (Applicable to dates of death on or after January 1, 1997)/3013

Taxpayer Advisory Bulletin is published quarterly with updates on legislative, legal and Departmental decisions and is available on the DOR website at www.mass.gov/dor.

DOR Regulations, Technical Information Releases, Directives and Letter Rulings are prepared on general tax issues as well as specific taxpayer inquiries and are available on the DOR website and Fax on Demand system, or by calling DOR's Rulings and Regulations Bureau at (617) 626-3250. Copies also are published in the **MASSTAX Guide**.

Registration Packet contains registration materials for business taxpayers, tax information, sample forms and informational guides, and is available by calling (617) 887-6400.

MASSTAX Guide contains five volumes covering all state taxes and DOR administrative procedures; it is available for purchase through West Group (1-800-328-9352) or for reference at many law libraries and at the State House Library.

The purpose of this publication is to provide taxpayers with general information about Massachusetts tax laws and Department of Revenue policies and procedures as of December 1, 2001. It is not designed to address all questions in detail, and taxpayers are encouraged to seek further guidance as described throughout this guide. Nothing contained within this publication supersedes, alters or otherwise changes any provisions of Massachusetts General Laws, Massachusetts Department of Revenue Regulations or Rulings or any other sources of the law.



Department of Revenue Offices

Toll-free in Massachusetts: 1-800-392-6089

Boston

19 Staniford Street, MA 02114
(617) 887-MDOR

Fall River

218 South Main Street, MA 02721
(508) 678-2844

Hyannis

1019 Iyanough Road, MA 02601
(508) 771-2414

Pittsfield

333 East Street, MA 01201
(413) 499-2206

Springfield

436 Dwight Street, MA 01103
(413) 784-1000

Worcester

40 Southbridge Street, MA 01608
(508) 792-7300
